

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

The Peoples Gas Light)	
and Coke Company)	
)	
Petition for an order approving the purchase)	Docket No. 11-0476
of certain securities and for authority to resell)	
those securities pursuant to Section)	
7-102 of the Illinois Public Utilities Act)	

DRAFT ORDER

By the Commission:

I. PROCEDURAL HISTORY

On June 8, 2011, The Peoples Gas Light and Coke Company ("Peoples Gas") filed a Petition pursuant to Section 7-102 of the Public Utilities Act ("Act") requesting that the Illinois Commerce Commission ("Commission") approve its request to purchase certain securities and for authority to resell those securities.

On July 14, 2011, Peoples Gas filed the Direct Testimony of Tchapo Napoe, Manager - Corporate Finance for Integrys Business Support, LLC. In this Direct Testimony, Mr. Napoe stated, *inter alia*, that Peoples Gas no longer intended to resell the securities and withdrew that portion of its request.

On February 24, 2012, Illinois Commerce Commission ("Commission") Staff filed the verified Affidavit of Sheena Kight-Garlish, Senior Financial Analyst in the Finance Department of the Financial Analysis Division.

No party filed for intervention in this proceeding.

On February 28, 2012, Peoples Gas filed the affidavit of Mr. Napoe (PGL Ex. 2.0) and a Motion for admission of Mr. Napoe's Direct Testimony (PGL Ex. 1.0) by affidavit. On _____, 2012, the Administrative Law Judge granted the Motion.

On _____, 2012, the Administrative Law Judge marked the record "Heard and Taken."

On February 28, 2012, Peoples Gas filed an agreed form of order pursuant to Section 200.810 of the Commission's Rules of Practice.

II. UNCONTESTED ISSUES

There are no contested issues in this case.

A. Peoples Gas

In its Petition and its witness Mr. Napoe's testimony, Peoples Gas stated that, in 2003, it had requested authority through an Informational Statement filed under Section

6-102 of the Act, and the Commission approved, authority to issue up to \$177 million principal amount of bonds to the Illinois Finance Authority's ("IFA") predecessor.¹ The IFA is a conduit through which Peoples Gas was able to access the tax-exempt debt market. Peoples Gas issued \$102 million of the bonds authorized in Docket No. 03-0548 on October 9, 2003, and it denominated \$51 million of these bonds as Series PP. As described in the Order, the IFA contemporaneously issued certain Gas Supply Refunding Revenue Bonds and lent the proceeds to Peoples Gas. Peoples Gas then used the proceeds to redeem certain bonds. On April 17, 2008, Peoples Gas purchased all the outstanding Series PP bonds, holding the related IFA Series 2003D bonds, and simultaneously converted the interest period on the bonds to a weekly rate mode.² The bonds were in an auction rate mode. An "auction rate mode" means that the rate was set periodically through an auction process, and, if the auction failed, there was a default rate. The IFA Series 2003D bond holders received their investment back from Peoples Gas. As a result, Peoples Gas retired the Series PP debt and removed it from the balance sheet for accounting purposes. The IFA did not receive any money in the purchase transaction.

Based on the Commission's Interim Order in Docket No. 11-0269³, Peoples Gas stated that it believes that the Commission would regard the Series 2003D bonds it holds as an investment in the IFA under Section 7-102(A)(h) of the Act. Peoples Gas filed in this proceeding to try to remedy what it expects the Commission would conclude was a failure to satisfy the Section 7-102(A)(h) requirements.

Mr. Napoe stated that, prior to Peoples Gas' decision to retire the liability associated with Series PP, the interest rate was set through auctions that occurred every 35 days. These auctions started failing in early 2008. Peoples Gas decided to retire the Series PP bonds based on its observations of failed auctions resulting in increasingly higher rates. Mr. Napoe stated that Peoples Gas' decision to retire Series PP avoided the risk of potentially having to pay the maximum failed auction rate of 14%.

Mr. Napoe explained that the Series PP bonds were issued to reflect the liability Peoples Gas had to the IFA. No investors ever owned those bonds. Since Peoples Gas now owns the IFA Series 2003D bonds, Peoples Gas retired Series PP, removing it from the balance sheet for accounting purposes to reflect the extinguishment of its liability to the IFA.

Mr. Napoe stated that the 2008 purchase was prudent and the public was inconvenienced by the purchase. The transaction allowed Peoples Gas and its ratepayers to mitigate interest rate risk. The failed auction rate on the Series PP bonds was 175% of one-month LIBOR, capped at 14%. Mr. Napoe stated that Peoples Gas paid a failed auction interest rate as high as 13.93% in October 2008 for similar bonds

¹ The Peoples Gas Light and Coke Company, Docket No. 03-0548 (Final Order, Sept. 22, 2003). The Illinois Development Finance Authority ("IDFA") was the predecessor of the IFA. The IFA was created on January 1, 2004, following the consolidation of seven existing state authorities, including the IDFA, into this new organization.

² Peoples Gas disclosed this purchase in its Supplemental Report in Docket No. 03-0548, filed February 27, 2009, and listed the purchase in Schedule D-3 of its rate case filing in Docket Nos. 11-0280/11-0281 (cons.).

³ The Peoples Gas Light and Coke Company, Docket No. 11-0269 (Interim Order, May 4, 2011).

that remained outstanding. The transaction limited Peoples Gas' and its ratepayers' exposure to such volatile interest rates.

Mr. Napoe stated that Peoples Gas no longer intends to resell the IFA Series 2003D bonds. Instead, it intends to close down the conduit, thereby retiring the IFA Series 2003D bonds. Since the IFA Series 2003D bonds will now be retired, Peoples Gas withdrew its request for a future resale transaction.

B. Commission Staff

Ms. Kight-Garlich described Peoples Gas' filing, including that, in its direct testimony, Peoples Gas withdrew its request for authority to resell certain securities. She stated that she reviewed Peoples Gas' application, testimony, and supplemental information that Peoples Gas provided to the Staff. Ms. Kight-Garlich stated that Peoples Gas purchased the securities to alleviate the interest rate risk associated with the auction rate. Thus, she stated that Staff does not object to Peoples Gas' purchase of the securities.

III. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) The Peoples Gas Light and Coke Company is an Illinois corporation engaged in the distribution of natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;

(2) the Commission has jurisdiction over The Peoples Gas Light and Coke Company and of the subject matter of this proceeding;

(3) the recitals of fact and the conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

(4) The Peoples Gas Light and Coke Company has filed for approval of its purchase of certain securities in 2008;

(5) the Commission approves The Peoples Gas Light and Coke Company's purchase of those securities; and

(6) all motions, petitions, objections or other matters in this proceeding which remain undisposed of should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED that The Peoples Gas Light and Coke Company's request for approval of its April 2008 purchase of certain securities, be, and is hereby, approved.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this _____ day of _____, 2012.

(SIGNED)

Chairman